

# COMPLIANCE AUDIT

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## Schoeneck Fire Company Relief Association

Lancaster County, Pennsylvania

For the Period

January 1, 2012 to December 31, 2014

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February 2016



Commonwealth of Pennsylvania  
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE  
AUDITOR GENERAL

Mr. John Mertz, President  
Schoeneck Fire Company Relief Association  
Lancaster County

We have conducted a compliance audit of the Schoeneck Fire Company Relief Association (relief association) pursuant to authority derived from Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and mandated by the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010 (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, for the period January 1, 2012 to December 31, 2014.

The objectives of the audit were:

1. To determine if the relief association took appropriate corrective action to address the finding contained in our prior audit report.
2. To determine if the relief association received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures.

Our audit was limited to the areas related to the objectives identified above.

Relief association officers are responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the relief association's administration of state aid and accumulated relief funds complies with applicable state laws, contracts, bylaws, and administrative procedures, including the safeguarding of assets. Relief association officers are responsible for complying with applicable state laws, contracts, bylaws, and administrative procedures. It is our responsibility to perform procedures to obtain sufficient, appropriate evidence to the extent necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

Based on our audit procedures, we conclude that, for the period January 1, 2012 to December 31, 2014:

- The relief association took appropriate corrective action to address the finding contained in our prior audit report.
- The relief association, in all significant respects, received state aid and expended state aid and accumulated relief funds in compliance with applicable state laws, contracts, bylaws, and administrative procedures, except as noted in the findings listed below and discussed later in this report.

Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment

Finding No. 2 – Failure To Conduct Annual Physical Equipment Inventories

The supplementary financial information contained in this report is presented for purposes of additional disclosure and analysis. We performed only limited procedures on the supplementary financial information and, accordingly, express no form of assurance on it.

The contents of this report were discussed with the management of the relief association and, where appropriate, their responses have been included in the report. We would like to thank the relief association officials for the cooperation extended to us during the conduct of the audit.

February 5, 2016



EUGENE A. DEPASQUALE  
Auditor General

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## BACKGROUND

Pursuant to Article VIII, Section 10 of the Constitution of the Commonwealth of Pennsylvania, Section 403 of The Fiscal Code, Act of April 9, 1929, (P.L. 343, No. 176), and the Volunteer Firefighters' Relief Association Act, as consolidated by the Act of November 23, 2010, (P.L. 1181, No. 118), at 35 Pa.C.S. § 7411 *et seq.*, the Department of the Auditor General's duty is to audit the accounts and records of every volunteer firefighters' relief association to determine that funds received under the Foreign Fire Insurance Tax Distribution Law, Act of December 18, 1984, (P.L. 1005, No. 205), as amended, 53 P.S. § 895.701 *et seq.* (commonly referred to as Act 205), are properly expended.

The relief association is a charitable organization that was formed primarily to afford financial protection to volunteer firefighters and to encourage individuals to participate in volunteer fire service.

Act 118 governs the overall operation of volunteer firefighters' relief associations. The relief association's bylaws define the specific operational procedures by which the relief association conducts business. To fulfill its primary purpose, Act 118 authorizes specific types of expenditures and prescribes appropriate volunteer firefighters' relief association investment options. Within the parameters established by Act 118, it is the responsibility of the relief association to choose investments in a proper and prudent manner.

Volunteer firefighters' relief associations receive public tax monies, and the association officers therefore have a responsibility to the public to conduct the association's financial affairs in a businesslike manner and to maintain sufficient financial records to support the propriety of all association transactions. Volunteer firefighters' relief association officers are also responsible for ensuring that the association operates in accordance with applicable state laws, contracts, bylaws and administrative procedures.

Act 205 sets forth the computation of the Foreign Fire Insurance Tax Distribution paid to each applicable municipality throughout the Commonwealth of Pennsylvania. The amount of the distribution is based upon the population of each municipality and the market value of real estate within the municipality. Upon receipt of this distribution, the municipality must allocate the funds to the volunteer firefighters' relief association of the fire service organization or fire service organizations that is or are recognized as providing the service to the municipality.

**BACKGROUND – (Continued)**

The relief association was allocated state aid from the following municipality:

<u>Municipality</u>	<u>County</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
West Cocalico Township	Lancaster	\$22,930	\$25,742	\$24,362

The volunteer firefighters' relief association and the affiliated fire service organization are separate, legal entities. The relief association is affiliated with the following fire service organization:

Schoeneck Fire Company

SCHOENECK FIRE COMPANY RELIEF ASSOCIATION  
STATUS OF PRIOR FINDING

COMPLIANCE WITH PRIOR AUDIT FINDING AND RECOMMENDATION

The relief association has complied with the prior audit finding and recommendation, as follows:

- Unauthorized Expenditure

By receiving reimbursement of \$858 from the affiliated fire company for the unauthorized expenditure made in the prior audit period.

SCHOENECK FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – Failure To Secure Ownership Interest In Jointly Purchased Equipment**

Condition: On June 25, 2014 and November 14, 2014, the relief association expended \$9,620 and \$7,468, for the purpose of jointly purchasing airpicks and a breathing air compressor, respectively, with the affiliated fire company. However, the relief association did not adequately secure its ownership interest in the jointly purchased equipment.

Criteria: Act 118 at 35 Pa.C.S. § 7418(a) states:

The Office of Auditor General shall have the power and its duty shall be to audit the accounts and records of every volunteer firefighters' relief association receiving money under Chapter 7 of the Act of December 18, 1984 (P.L. 1005, No. 205), known as the Municipal Pension Plan Funding Standard and Recovery Act, as far as may be necessary to satisfy the Auditor General that the money received was or is being expended for no purpose other than that authorized by this subchapter. Copies of all audits shall be furnished to the Governor.

Prudent business practice dictates that the relief association should secure its proportional ownership interest in the jointly purchased equipment by executing a formal written agreement that enumerates the relief association's proportional share of financing. Such agreement shall specify that the relief association shall receive its prorated share of the proceeds upon sale of the equipment, in the event the equipment is ever sold.

Cause: Relief association officials failed to adequately secure its proportional ownership interest in the jointly purchased equipment.

Effect: The failure to adequately secure the proportional share of ownership interest in the jointly purchased equipment places the relief association's ownership interest at greater risk.

Recommendation: We recommend that the relief association officials execute a formal written agreement with the fire company that enumerates the relief association's proportional ownership interest in the jointly purchased equipment as well as stipulating that the proportionate sales proceeds shall revert to the relief association in the event the equipment is ever sold. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

SCHOENECK FIRE COMPANY RELIEF ASSOCIATION  
FINDINGS AND RECOMMENDATIONS

**Finding No. 1 – (Continued)**

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and, as a result of our audit, on February 3, 2016, the relief association provided joint purchase agreements which enumerate the relief association's proportional ownership interest for the two equipment purchases.

Auditor's Conclusion: Compliance for the subsequent audit period will be subject to verification through our next audit.

**Finding No. 2 – Failure To Conduct Annual Physical Equipment Inventories**

Condition: As previously cited as a verbal observation in our prior audit, relief association officials failed to conduct annual physical inventories of equipment and ensure such inventories accounted for all equipment owned by the relief association.

Criteria: Sound business practice dictates that annual inventories are conducted to ensure the accuracy of the relief association's equipment roster.

Cause: Relief association officials failed to establish adequate internal control procedures to ensure the performance of annual physical equipment inventories.

Effect: The failure to perform an annual physical inventory of equipment prevents adequate accountability for, and safeguarding of, relief association owned equipment.

Recommendation: We recommend that the relief association officials ensure they perform an annual physical inventory of all operable equipment and that the completion of the inventories be sufficiently documented. For further guidance, please refer to the Auditor General's publication, MANAGEMENT GUIDELINES FOR VOLUNTEER FIREFIGHTERS' RELIEF ASSOCIATIONS.

Management's Response: Relief association management agreed with the finding as presented at the audit exit conference and indicated they will take action to comply with the recommendation.

Auditor's Conclusion: Compliance will be subject to verification through our next audit.

SCHOENECK FIRE COMPANY RELIEF ASSOCIATION  
SUPPLEMENTARY FINANCIAL INFORMATION  
FOR THE PERIOD JANUARY 1, 2012 TO DECEMBER 31, 2014

Cash Balance:	\$	38,235
Expenditures:		
Benefit Services:		
Insurance premiums	\$	<u>10,723</u>
Fire Services:		
Equipment purchased	\$	100,763
Equipment maintenance		12,656
Training expenses		1,239
Fire prevention materials		589
Total Fire Services	\$	<u>115,247</u>
Administrative Services:		
Other administrative expenses	\$	2,215
Bond premiums		750
Total Administrative Services	\$	<u>2,965</u>

SCHOENECK FIRE COMPANY RELIEF ASSOCIATION  
REPORT DISTRIBUTION LIST

This report was initially distributed to the following:

**The Honorable Tom W. Wolf**  
Governor  
Commonwealth of Pennsylvania

Schoeneck Fire Company Relief Association Governing Body:

<b>Mr. John Mertz</b>	President
<b>Mr. Jeff Hackman</b>	Vice President
<b>Ms. Linda Weaver</b>	Secretary
<b>Ms. Trudy Smith</b>	Treasurer

A report was also distributed to the following municipality, which allocated foreign fire insurance tax monies to this relief association:

<b>Mr. Terry Scheetz</b>	Secretary
West Cocalico Township	

This report is a matter of public record and is available online at [www.PaAuditor.gov](http://www.PaAuditor.gov). Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: [news@PaAuditor.gov](mailto:news@PaAuditor.gov).